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IN THE

Supreme Court of the United States

OCTOBER TERM, 1959.

No. 501

BINKS MANUFACTURING COMPANY,
Petitioner,

vs.

RANSBURG ELECTRO-COATING CORPORATION,
Respondent.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT.

BRIEF FOR THE PETITIONER.

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OPINIONS BELOW.

The District Court for the Southern District of Indiana rendered no opinion. Its findings of fact and conclusions of law are reported at 122 U. S. P. Q. 74. The opinion of the Court of Appeals is reported at 281 F. 2d 252.

JURISDICTION.

The judgment of the Court of Appeals was entered on July 27, 1960, and the petition for a writ of certiorari was filed on October 24, 1960. This Court granted the petition on December 19, 1960. The jurisdiction of this Court is invoked under 28 U. S. C. 1254(1).

STATUTES INVOLVED.

The statutes involved are Sections 1 and 2 of the Sherman Anti-Trust Act, 26 Stat. 209 (15 U. S. C. 1, 2); Sections 3, 4 and 16 of the Act of October 15, 1914 (commonly known as the Clayton Act), 38 Stat. 731 *et seq.* (15 U. S. C. 14, 15, 26); and 28 U. S. C. 1254 (1), 1338. The relevant portions of these statutes are set forth in the Appendix, *infra*, at pages 61-63.

QUESTIONS PRESENTED.

1. Whether, considering the totality of its activities of
   (a) acquiring outstanding patents or rights thereunder,
   (b) committing fraud on the Patent Office in order to procure the issuance of key patents,
   (c) tying equipment leases to patent licenses,
   (d) requiring its patent licensees to accept a package containing unwanted patents, and
   (e) requiring licensees to accept a broad grant-back clause as part of its standard agreements,

Respondent has monopolized and restrained trade in the electrostatic spray coating field in violation of Sections 1 and 2 of the Sherman Act.

2. Whether, in licensing patents and requiring as a condition of receiving such licenses that licensees lease its equipment and pay for replacements thereof including unpatented items, and pay for services, Respondent has violated Sections 1 and 2 of the Sherman Act and Section 3 of the Clayton Act and has misused its patents.

3. Whether, in forcing its license-lessees to take licenses under a package containing unwanted patents, Respondent has violated Sections 1 and 2 of the Sherman Act and has misused its patents.

4. Whether, in requiring its licensees to accept as part of its standard agreements a clause broadly requiring the granting back to it of rights under any inventions, improvements or patents in the airless electrostatic spray coating field, Respondent has violated Sections 1 and 2 of the Sherman Act and has misused its patents.

5. Whether Respondent fraudulently procured the issuance of its two Starkey patents.

STATEMENT.

1. PROCEEDINGS BELOW.

On October 11, 1956 Petitioner (Plaintiff below) instituted this action seeking a declaratory judgment that Respondent's Starkey Method Patent 2,685,536 (R. II:1021),[1] issued August 3, 1954 from an application filed September 29, 1944, was invalid and unenforceable. Respondent (Defendant below) counterclaimed charging Petitioner with infringement of said Starkey method patent. Because of Respondent's counterclaim, Petitioner's complaint was dismissed on its own motion. Petitioner then answered the counterclaim denying infringement, alleging invalidity and misuse of patents, and cross-counterclaimed charging violation of the antitrust laws. Respondent's Starkey Apparatus Patent 2,794,417 (R. II:1029), dated June 24, 1957 based on the same 1944 application, was brought in issue by supplemental pleadings. On order of the District Court substitute pleadings, including all amendments, were filed (R. I:1-45). Findings of fact and conclusions of law in favor of

1. The pages of the printed record in this Court are not numbered consecutively throughout all of the four volumes. Accordingly, record page references herein are preceded by the applicable volume number which is separated from the page number by a colon, *i.e.*, R. I:1 means volume I, page 1.

"Find." designates the findings of fact of the District Court below; "R.A." designates Petitioner's requests for admissions and Respondent's answers thereto; "Int." designates Petitioner's interrogatories and Respondent's answers thereto; "Pl. Ex." designates Plaintiff's Exhibit; and "Def. Ex." designates Defendant's Exhibit. References to exhibits are followed only by the record page number where the exhibit appears, since transcript portions in which exhibits were offered in evidence are for the most part not printed in this record. There is no dispute as to the admissibility of any exhibit referred to herein.

In the petition for certiorari, R. I and R. II were designated "P.A." and R. III was designated "D.A."

Respondent on all issues were entered by the Court on June 16, 1959 (R. II:968). The Court of Appeals affirmed, except for the allowance of attorneys' fees for the Respondent which is not in issue here (R. IV:838).

2. RESPONDENT'S BACKGROUND, PATENT ACQUISITION AND LEASING PROGRAM.

Initially, Respondent's predecessor was a small Indiana concern engaged in the business of selling kitchenware such as canisters, bread boxes, and the like (R. III:164). For more than the past 15 years, however, Respondent and its predecessor (hereinafter sometimes referred to as "Respondent") have been engaged in acquiring adversely owned patents or patent rights, and granting patent licenses coupled with leases of its equipment for electrostatic spray coating or painting systems. Respondent was incorporated on January 1, 1948 and has now grown to a size wherein it is the only supplier of airless electrostatic spray coating systems (Int. 12, 16, R. I:47), although it sold none, and now collects rental fees in excess of 3 million dollars a year (Int. 85, R. I:58).

a. No. 1 Process and Detearing.

The spray coating system first licensed and leased in 1944 by Respondent's predecessor, the Ransburg partnership, was known as the No. 1 Process and was covered by Pugh Patent 1,855,869 (which has now expired), acquired by Respondent in 1943 from Western Electric Co. (R. II:1073; III:167, 195-196, 204; Pl. Ex. SS, R. II:762). It consists basically in employing an electrostatic field for depositing liquid particles delivered or sprayed into the field by a conventional air spray gun (Pl. Ex. EEEE, R. II:854).

The Respondent also marketed in 1943 a process known

as "*electrostatic detearing.*" Detearing is a process in which articles having a wet coating are subjected to the action of an electrostatic field which serves to pull off or "detear" the excess and deposit same (R. I:315; Pl. Ex. EEEE, R. II:857). The technique of electrostatic detearing is described in Gravley Patent 2,359,476, acquired by Respondent in 1943 by assignment from The Brush Development Company (Pl. Ex. TT, R. II:765; R. II:1113).

b. No. 2 Process.

In Respondent's No. 2 electrostatic spray coating system (No. 2 Process), licensed and leased as early as 1951 (R. I:432-433), a rotating or centrifugal bell or disc is substituted for the air gun of the No. 1 Process (Pl. Ex. UUUU, R. II:877; Pl. Ex. VVVVV-1, R. III:428). This disc or bell rotating at 900 R. P. M. not only feeds the liquid to the one side of an electrostatic field, but also performs an indispensable part in the atomization, dispersion and deposition of the liquid (R. I:350-351). Respondent's No. 2 Process is inoperative without the use of centrifugal means in effecting atomizing and dispersion of the liquid (R. I:350-351). Respondent, before the issuance of its Starkey method patent, licensed and leased 171 of its No. 2 systems (Int. 40(a), R. I:51).

Both of the Starkey patents[2] were issued as the result of a single application, filed by William A. Starkey and Edwin M. Ransburg in 1944 and a later 1954 division thereof (Find. 50, R. II:992-993; R. II:1025, 1033; R. A. 25, 26, 28, R. I:198). The structures illustrated in the application and the issued patents showed stationary mechanical means

2. The Starkey apparatus patent is directed to a combination of "means" to perform a particular function. None of these means, "separately viewed, is within the grant." *Aro Mfg. Co.* v. *Convertible Top Replace. Co.*, 81 S. Ct. 599, 604, decided February 27, 1961.

for delivering coating material to the electrostatic field, and did not indicate the use of centrifugal force for this purpose. In the course of prosecuting the original application Respondent urged before the Patent Office Board of Appeals, in a brief filed in 1951, that the "heart" of the claimed invention "lies in the concept of employing a *single* electrostatic field which acts as the *sole* agent to atomize paint, disperse the particles formed by atomization, and deposit those particles on the work" (R. IV:635-636; emphasis in original). Respondent also furnished affidavits, which the Patent Office Board of Appeals relied on in upholding Respondent's claims, indicating commercial success of the No. 2 Process but not disclosing that the apparatus which had been commercialized employed the *rotating* bell or disc to effect atomization (Def. Ex. 5B, R. IV:637-642, 644).

c. Acquisition of Patent Rights from Possible Competitors.

Respondent, prior to its entering the electrostatic liquid spraying field in 1944 with its air type No. 1 Process (R. III:167), entered into negotiations with other possible competitors to the end of acquiring patent rights. Its first negotiations were with Behr-Manning Corporation from whom it received a letter dated November 22, 1940 indicating that that company was already in the electrostatic solid particle or abrasive spraying field, was interested in "the electrodeposition of paint or other liquids", and had patent coverage "directed to this art" (Pl. Ex. PPPP, R. II:862-863).

Respondent, initially, was not able to make a deal with that company, which terminated the negotiations in 1941 (Pl. Ex. PPPP, R. II:866). It then proceeded to acquire in 1943 Pugh Patent No. 1,855,869 from Western Electric Co. which it used in 1944 as a basis to renew the negotiation with Behr-Manning (R. II:1073; Pl. Ex. SS, R. II:762;

Pl. Ex. PPPP, R. II:866-867). In addition, Respondent offered its own Patent No. 2,270,341 (R. II:1105) in the solid particle field as being of particular interest in the abrasive field (R. II:1105; Pl. Ex. PPPP, R. II:868).

An agreement was consummated pursuant to which the electrostatic coating field was divided up between the parties (Pl. Ex. UU, R. II:771). Respondent granted to Behr-Manning an exclusive license, with the right to sub-license, in the field of electrostatic coating of abrasive articles and flock-coated articles under 5 patents and 9 patent applications (R. II:777). Respondent took an exclusive license, with the right to sub-license, in the field of electrostatic spraying of liquids, except for the field of abrasive and flock-coated articles, under some 31 patents and 7 patent applications of Behr-Manning (R. II:778-779). More than half of the listed pending patent applications of Behr-Manning were owned or controlled by Minnesota Mining and Mfg. Co. (R. II:779) as was likewise Smyser Patent RE 22,419 (assigned on its face to that Company, R. II:1037, 1041), with which Respondent was particularly concerned (R. I:434-435). Thus, not only patent rights owned by the respective parties to the agreement were divided up, but also patents being prosecuted or controlled by a third party were allocated.

On May 3, 1943 Respondent also acquired the electrostatic detearing patent of Gravley, No. 2,359,479, from The Brush Development Company of Cleveland, Ohio (R. II:1113; Pl. Ex. TT, R. II:765). Further, on October 7, 1948, Respondent acquired by agreement with Research Corporation, of New York, exclusive patent rights, including the right to sub-license, under additional patents for the electrostatic deposition of liquid materials, but the agreement expressly excluded solid particle coating, such as abrasive deposition (Pl. Ex. VV, R. II:779-789).

In answer to Request for Admission 58 (R. I:202), Respondent admits:

> that in no instance where it has acquired patent rights from other parties had any of such parties gone into competition with the defendant in the electrostatic liquid spraying field.

Likewise, in its answer to Request for Admission 56 (R. I:202) it admits that: "in granting licenses, licensees have not only been given the benefit of operating under the patents taken out by the defendant, but also under other patent rights acquired from third parties." Further, Respondent's Vice President Harold Ransburg testified that in granting licenses Respondent had included patents under which it had obtained rights from Behr-Manning, "[t]o the extent that they applied to our license * * *," and acknowledged "[w]e felt that the Smyser reissue patent did apply * * *" (R. I:447-448).

d. Respondent's Marketing Program.

Since its entry into the field of licensing electrostatic spray coating processes, Respondent has used a combined patent licensing and equipment leasing arrangement (R. I:114-151). It seeks to interest prospects for its No. 1 and No. 2 Processes by advertising in trade publications, distribution of sales brochures, and by direct solicitation. If a prospect expresses interest, Respondent obtains from him information on his product, his paint usage under existing procedures, and other pertinent factors, and invites him to submit samples of his products for a laboratory test. In Respondent's laboratory a painting operation is designed, set up and operated for the prospect. After demonstration of this pilot operation and after computation of possible paint savings, Respondent's engineers make a drawing of the demonstrated system and apparatus ar-

rangement, and a proposed license-lease agreement is submitted to the prospect, together with the drawing, on one of Respondent's standard printed forms. Respondent leases its equipment on the basis of licensees taking the entire coating unit. (Find. 60, 61, R. II:998-999; R. III:174-178; Pl. Ex. NNNN, R. I:571-574; Pl. Ex. EEEE, R. II:858-859; Pl. Ex. UUUU, R. II:879.)

Respondent does not sell equipment to users (R.A. 1, R. I:194). It collects its fees from a combination of the following charges (1) an initial fee of $5,000 to $40,000 which is payable to Respondent upon installation of the leased equipment and completely pays for the equipment including the profit thereon (R.A. 38, R. I:200; Int. 10, R. I:47; Pl. Ex. NNNN, R. I:579); (2) a minimum monthly fee or (3) a percentage of the cost of coating material which passes through Respondent's equipment per month, if this sum is greater than the minimum fee provided in (2) (Pl. Ex. III-3, R. II:812; Pl. Ex. JJJ-2, R. II:817). On the basis of these fees, Respondent collects millions of dollars a year from some of the largest industrial concerns in the United States (Int. 3(c), 85, 86, R. I:46, 58, 85-112).

During the early portion of this suit, the total number of Respondent's licenses was *733* (Int. 3(a), R. I:46, 177). *All* of the 337 licenses of its No. 2 Process contain a lease of Respondent's equipment (R.A. 17, R. I:196; R. I:152-177).

The contracts between Respondent and its licensees are prepared by Respondent and are normally in printed form (R.A. 44, 45, R. I:201). The terms of the Respondent's license have not varied substantially from the outset of leasing of the No. 1 Process to the present day leasing of both the No. 1 and the No. 2 Processes (Int. 170, R. I:74).

Respondent in its agreement forms (R. I:114, 122, 129, 137, 145) represents that it is the owner of or otherwise has the right to grant licenses under inventions and letters patent "pertaining to and covering methods and apparatus used in" the No. 1 or No. 2 Process, but does not specifically identify any patents or inventions. In most of its executed agreements Respondent has not specifically identified the applicable patents and pending patent applications. It has never submitted a license under any specific single patent (R. I:482).

In one instance, where a licensee, Avco Manufacturing Company, was able to get Respondent to list its patents in the agreement itself (Pl. Ex. XXXX, R. II:886-891), Respondent later admitted that none of the 36 patents listed "covered the No. 2 system leased and licensed to Avco Manufacturing Company" (R.A. 90, R. I:211). This Avco-Crosley license-lease agreement was still in force and effect at the time the suit was commenced, as shown by Exhibit E submitted by Respondent in its answer to Interrogatory 33 (R. I:50, 154).

According to Exhibit F prepared by Respondent in its response to Interrogatory 34 (R. I:50, 178-181), Respondent, in addition to the Avco agreements, also granted license-lease agreements to six other large companies wherein it similarly listed a large number of patents as noted, *i. e.*, E. I. du Pont De Nemours & Co., Durham Mfg. Corp., Gibson Refrigerator Co., Hoffman Mfg. Co., Scott Paper Co., and Stant Mfg. Co. With respect to at least three of these six, Respondent included patents that were clearly inapplicable (R. I:178-181; *infra*, page 45).

Respondent retains title (R.A. 71, R. I:205) in and reserves the right to make changes in the equipment it supplies, and in consideration of the required fees it agrees to supply replacement parts (*which include staple commodi-*

lies) (R.A. 54, R. I:202; R. I:182), as well as to supply services. Respondent reserves the right to cancel without cause after three years. The lessee may cancel at any time upon 30 days' notice, but he must return the leased equipment and there is no provision for return of any part of the initial fee (R. I:117, 125, 132, 140, 148).

At the start of licensing of the No. 2 Process in 1951, Respondent included in its agreements for this process "Future Inventions" clauses, in which the user was obligated to license back to Respondent, royalty-free, with the *right to sub-license*, any inventions, improvements, or letters patent, domestic or *foreign*, acquired from any source, relating to methods and/or apparatus involving electrostatic atomization of liquids or the deposition of electrostatically atomized liquids (R.A. 18, 19, R. I:196, 197). This requirement to license back thus embraced all inventions, improvements and patents in such methods or apparatus, whether or not they were dominated by any patents owned by Respondent. It extended not only during the period of the agreement, but for two years thereafter.

133 outstanding agreements containing such "Future Inventions" clauses are still in force and effect, although Respondent began in 1955 to use a new form of agreement without this clause (R. I:152-177; Find. 84, R. II:1012).

In 1953, after the No. 1 Process had been licensed for nine years and the No. 2 Process had been licensed for several years, the Respondent sent letters to its then existing licensees inquiring whether they would prefer licenses which would not involve rental of Respondent's equipment (Pl. Ex. S, Z-1; R. II:730, 731). To take advantage of this offer, the user would have had to return all of the leased equipment to Respondent, *without refund* of any of the large initial fee (covering more than the entire cost of the leased equipment) before proceeding to practice the licensed subject on the basis of a slight reduc-

tion in the monthly fee (Pl. Ex. LLLL, R. I:542). No licensee ever accepted the terms of this offer (Pl. Ex. LLLL, R. I:539).

At this time Respondent also printed new forms for a patent license alone without lease (*e.g.*, R. III:1, 15, 18, 31, 42). Such forms are very similar to the license-lease form, both in their generalized description of applicable patents and in their license grant. The forms contain the same termination provision as the license-lease forms, and until 1955 included a "Future Inventions" grant-back clause.

3. PETITIONER'S BACKGROUND AND SK 661 PAINT EMITTER.

Petitioner has been in the spray painting supply business since before the turn of the century, and sells directly to customers such catalogue items as spray guns, and allied equipment for the spray coating field (R. II:970). Prior to the issuance of Respondent's patents in suit, in collaboration with Midwest Research Institute (Pl. Ex. LLLLL, R. I:673), Petitioner developed a simple electrostatic liquid spraying device or emitter (Pl. Ex. MMMMM, R. I:711).

Petitioner's emitter SK 661 here in suit consists of two integral concentric spaced stationary disks at the outer edge of which liquid freely emerges from between the disks to be atomized by an electrostatic field (R. I:233; Pl. Ex. ZZZZ-8, R. II:905).

Petitioner successfully demonstrated its SK 661 emitter to sales personnel and others including representatives of Ford Motor Company, and submitted bids to Ford for installation of such emitter but was unable to consummate such bid in an order (Pl. Ex. LLLLL, R. I:674-81, 691; Pl. Ex. OOOOO, PPPPP, R. III:391-426).

In the course of correspondence (Pl. Ex. ZZZZ-1-13, R. II:894-911) between the parties, in which Petitioner inquired if Respondent had any license forms on the basis of a single royalty for each sale of an SK 661 emitter, Respondent in its last letter advised Petitioner it could not license on any other basis than that one on which the royalties were based upon the usage by the customer of coating material passing through the licensed spray equipment. Also, in the same letter Respondent notified Petitioner not to sell its equipment for airless electrostatic coating to any party who was not a licensee of Respondent (Pl. Ex. ZZZZ-13, R. II:911). Respondent's hundreds of licensees had already in every instance leased its equipment under agreements by which Respondent furnished replacement parts and repairs (R.A. 17, R. I:196; Int. 11, R. I:47; R.A. 52, 54, R. I:201-202) and Petitioner was thus foreclosed from entering this market.

SUMMARY OF ARGUMENT.

I.

Respondent, by the totality of its activities, has monopolized and restrained trade in the electrostatic spray coating field in violation of the antitrust laws. This conduct has consisted of acquiring outstanding patents or rights thereunder, committing fraud on the Patent Office in order to procure the issuance of the two important Starkey patents, tying in equipment leases to patent licenses, forcing its patent licensees to accept and thus recognize the validity of and pay for a package containing unwanted patents and requiring licensees to agree to an extremely broad grant-back provision in order to obtain a patent license.

Respondent entered the market of electrostatic spray coating in 1944, employing a license-leasing system which has remained substantially the same. Its first package deal was known as the No. 1 Process. In order to obtain its initial dominance in this market, Respondent embarked upon a program of acquiring patent rights. Among the important patent rights acquired was the Pugh patent. This patent was later used by Respondent to induce Behr-Manning Corporation to enter into a cross-licensing agreement. Under this agreement the parties partitioned the electrostatic coating field. Behr-Manning acquired exclusive rights in the field of electrostatic coating of abrasive articles and flock-coated articles, and Respondent obtained exclusive rights in the field of electrostatic spraying of liquids except for the fields of abrasive and flock-coated articles. Commencing in 1951 Respondent began marketing its airless electrostatic spray painting system known

as its No. 2 Process. The momentum which Respondent acquired from the dominant position which it had prior to 1951 in the electrostatic spraying field was an important factor in its attainment of the monopoly position in the airless electrostatic spray coating field. Its program of patent acquisition was culminated by the fraudulent procurement from the Patent Office of the two Starkey patents covering the No. 2 Process.

Respondent in its license-lease program always packaged patents. As a condition of granting a license, it required its licensees to take equipment under a lease. Therefore, in order for a prospective licensee to obtain any rights from Respondent, it had to take a bundle which consisted not only of a group of patents but also of leased equipment. Moreover, licensees had to pay Respondent for replacement parts for the equipment and for service and also agree to grant back rights under any patents or inventions which in any way related to the broad field of electrostatic atomization of liquids.

Respondent's monopolization of the airless electrostatic spray coating market prevented Petitioner from competing for the sale of equipment therein.

II.

In order for prospective licensees to obtain a patent license from Respondent, they were required to lease equipment from it. In this connection, it is undisputed that Respondent never granted a patent license for the No. 2 Process without joining thereto an equipment lease. Respondent, moreover, required its licensees to pay for unpatented replacement parts for this equipment, and services. Respondent's attempt in 1953 to purge itself of its illegality in tying in equipment leases with patent licenses was a sham; the illegality and its effect were never eliminated.

This tie-in program eliminated all of these equipment

users as potential purchasers of Petitioner's equipment. It constitutes a violation of Section 3 of the Clayton Act and Sections 1 and 2 of the Sherman Act, and a misuse of patents.

III.

Respondent package licensed its patents. It adopted a policy whereby it granted licenses only under a group of its patents. In almost all of its 733 license-lease agreements, Respondent did not specifically identify patents being licensed. There are seven licensees who have obtained agreements with respect to which specific patents have been listed. Each of these agreements listed a large number of patents, and, in at least four of them, even clearly inapplicable patents were included.

Respondent thus forced its licensees to recognize the validity of, and to pay for, unwanted patents. Thus, it violated Sections 1 and 2 of the Sherman Act and misused its patents.

IV.

Commencing in 1951 Respondent required licensees of its No. 2 Process, as a condition of obtaining a license, to grant back to it rights under any patents or inventions which in any way related to the broad field of electrostatic atomization of liquids. Although Respondent eliminated this grant-back requirement from its standard license agreements in 1955, there are still more than 130 license agreements in force and effect containing the broad grant-back provision. Because of Respondent's dominance of the airless electrostatic spray coating industry and the breadth, scope and effect of the grant-back provisions, their use by Respondent constitutes a violation of Sections 1 and 2 of the Sherman Act and a misuse of patents.

V.

Respondent fraudulently procured the issuance of its Starkey patents by misrepresentations to the Patent Office. A showing of commercial success was an essential factor in causing these patents to issue. The commercial success, however, had actually occurred in Respondent's No. 2 Process which contained additional indispensable features not in the disclosures of the Starkey patent application. In making its representations of commercial success to the Patent Office, Respondent withheld the fact that the commercial success of the No. 2 Process was dependent upon these additional features.

ARGUMENT.

I. RESPONDENT HAS RESTRAINED TRADE AND MONOPOLIZED THE MARKET IN ELECTROSTATIC SPRAY COATING.

Monopolization under the Sherman Act consists in the possession of monopoly power (the power to fix prices or exclude competitors) coupled with the purpose or intent to exercise that power. *United States* v. *Griffith*, 334 U. S. 100 (1948); *American Tobacco Company* v. *United States*, 328 U. S. 781 (1946). From the time of entering the electrostatic coating market in 1944, Respondent has tried by many means to obtain monopoly power and restrain trade in this market. As will be shown below, Respondent has been successful in its effort and has clearly shown its purpose and intent to exercise its dominant market power.

A. Respondent Dominates the Field—There Is No One Else In It.

Respondent's success in attaining its monopoly power is demonstrated by the undisputed fact that it is and always has been the sole manufacturer and supplier in the nation of airless electrostatic spray coating systems (Int. 12, 16, 17, R. I:47). Since 1951 sixty-six per cent of Respondent's licensees use its airless No. 2 Process (Int. 169, R. I:73). Undisputed facts are evidenced by the following noted admissions and answers wherein Respondent admits:

> that prior to the issuance of its process patent No. 2,685,563, as far as is known to defendant, it was the sole manufacturer and supplier in this country of airless electrostatic spraying sytems [R.A. 41, R. I:200].
>
> there was no airless electrostatic spray coating

system on the market outside of those being marketed by defendant, and [that] the only source, as far as defendant knew, for such systems was the defendant [R.A. 85(a), (b), (R. I:210].

as far as it knows there are no second-hand dealers in the United States handling electrostatic airless spray coating systems [R.A. 51, R. I:201].

as far as it knows there is no servicing organization in the United States outside of itself for servicing its so-called No. 2 airless electrostatic coating system [R.A. 52, R. I:201].

as a part of its patent licensing and leasing program, [it] render[s] engineering and technical services to its licensees and * * * [also that it is] compensated for same * * * from fees paid by licensees [Int. 11, R. I:47].

[It or anyone else has not] sold or offered for sale any second-hand or used equipment of Defendant for airless electrostatic spray coating [Int. 89(a), R. I:59].

in connection with its licensing and leasing program on airless electrostatic spraying systems it usually, as a part of the fees received by it, for the most part supplies the majority of replacement parts on the equipment furnished by the defendant to its licensees [R.A. 54, R. I:202].

Respondent has more than $2,250,000 invested in outstanding leased equipment (Int. 71, R. I:55). As of the date the complaint was filed herein it had granted *733* license-leases, of which *463* were still in force and effect (Int. 3, R. I:46, 177). Exhibit B, attached to and comprising part of the answer to Interrogatory 3, reveals a very formidable list of the largest companies in the country as Respondent's licensees (R. I:85-112). Also, as noted from Respondent's Exhibit M (R. I:193), even ammunition, projectiles, etc., supplied to the United States Government by numerous concerns fully come within the scope of the market dominated by Respondent. In 1957 the total cost

of all paint, varnish and lacquer used in Respondent's No. 2 Process equipment by its licensees was $6,693,642 (Find. 83, R. II:1011).

The extent of Respondent's dominance and the exercise of its power are further illustrated by the exorbitant fees it charges for licensing its patents and leasing equipment. For example, where Respondent designs for a customer a spraying unit involving the use of a reciprocator, the customer must pay an additional initial sum even though this item is not patented and Respondent does not supply it. This additional sum ranges from $500 to $1500, depending on the *size* of the machine which the customer must buy elsewhere (Int. 181, R. I:75, R. I:487-489; Pl. Ex. NNNN, R. I:580-585).

We submit that the dominant position which Respondent possesses as the sole manufacturer and supplier in the nation of airless electrostatic spraying systems, as well as the sole servicing organization and replacement parts dealer therefor, was not attained through the lawful exploitation of Respondent's patents nor thrust upon it and is not, therefore, a so-called legalized form of monopoly within the doctrine of *United States* v. *Aluminum Co. of America*, 148 F. 2d 416 (C. A. 2, 1945). Rather than such position being thrust upon it, each and every step Respondent has taken over the years was designed to enable it to monopolize this industry and illegally to restrain trade therein.

B. Respondent's Acquisition of Patent Rights.

In order to accomplish its purpose of monopolization and restraint of trade, Respondent found it necessary to purchase or to obtain rights under outstanding patents held by others. While Respondent has contended below that such program was necessary in order to protect it and its licen-

sees from charges of infringement of these patents, the record clearly discloses that such was not in fact its prime objective. Had it merely wished to accomplish this objective, Respondent could have done so through the acquisition of non-exclusive rights under such patents together with the right to grant sub-licenses of the same character. Instead, in each instance, it either acquired the patents outright or acquired exclusive rights thereunder.

Respondent's agreement with Behr-Manning, reached shortly after its acquisition of the all-important Pugh Patent, on its face reveals the goal which Respondent sought to achieve. As previously noted, that agreement divided up the field of electrostatic coating by allocating to Behr-Manning exclusive rights under Respondent's patents in the field of abrasive articles and flock-coated articles, and by reserving to Respondent exclusive rights under Behr-Manning patents in the rest of the field of electrostatic deposition of liquid particles. Respondent and Behr-Manning employed "their joint patent position to allocate fields of manufacture * * *" and thus to suppress competition, a course of action clearly condemned by *Hartford-Empire Co.* v. *United States*, 323 U. S. 386, 406-407 (1945). By Respondent's subsequent acquisition of the Gravley detearing patent and its exclusive license agreement with Research Corporation, Respondent further consolidated its patent position. It admits that

> in no instance where it has acquired patent rights from other parties has any of such parties gone into competition with the defendant in the electrostatic liquid spraying field [R.A. 58, R. I:202].

Respondent's correspondence with Behr-Manning vividly illustrates that its motive in acquiring these patents and patent rights was, by allocating the abrasive and flock-coated article field to Behr-Manning, to reserve for its own monopolistic domain the electrostatic liquid coating field.

In a letter relating to the agreement, Respondent noted (Pl. Ex. PPPP, R. II:869):

> *Our greatest concern* and that to which we have given the most thought and consideration was the question of just how to word our future license agreements *so that there could be no question in the minds of our users that they were restricted from operating in your fields*, and still not create undue sales resistance for ourselves. * * * [Emphasis supplied.]

In reply, Behr-Manning in its letter of November 24, 1944 said (Pl. ex. PPPP; R. II:876-876a):

> If this is the case and since no licenses have to your knowledge been granted in the flock or abrasive fields, we do not foresee difficulty or conflict with any of your existing licensees and it should not be difficult for you to *so limit your future licensees as to prohibit the employment of the patents* under which you have given us exclusive rights for abrasives and flock coated articles, in these fields. [Emphasis supplied.]

This problem was solved by including in the Ransburg license-lease agreements, at a point following the license grant, a clause to the effect that "said rights shall not include the use of said Process in the manufacture of abrasive articles, flock-coated articles, or articles coated with fiber-shaped particles" (R. I:449-453; see, *e.g.*, R. III:7).

The lengths to which Respondent resorted in striving to achieve and retain its monopoly are further underscored by the manner in which it procured the Starkey patents here in suit. Respondent, through certain of its key personnel, possessed ideas or inventions upon which it ultimately obtained its Starkey method and apparatus patents. Obtaining these patents was a necessary step in the over-all program to monopolize this market. In attempting to obtain this patent position, Respondent en-

countered tremendous opposition in the United States Patent Office. After ten years of arduous effort, Respondent was able to obtain the issuance of its Starkey method patent in 1954 (and the divisional apparatus patent in 1957) only through the means of presenting to the Patent Office false and misleading affidavits and thereby through such documents, overcoming the objections by the Patent Office to the issuance of the patent. This phase of Respondent's program to monopolize is discussed in detail under Part V of this brief.

C. Respondent's License-Leasing Program.

Having achieved and maintained its position of dominance in the industry through the acquisition of patents, Respondent indulged in further practices in order to reap to the full the benefits of its monopoly. It was not satisfied with merely seeking the payment of royalties from prospective licensees under its patents or patent applications but also wished to monopolize the business of furnishing the equipment with which the patented process or method might be used. It accomplished this objective through a a scheme whereby it tied into its patent licenses a requirement that the licensee lease equipment from Respondent, and, in addition pay for unpatented replacement parts. The No. 1 Process was marketed under this scheme beginning in 1944, and the momentum thereof enabled Respondent to entrench itself further in the market when its No. 2 Process came out. The full details concerning this tie-in phase of Respondent's program to monopolize and restrain trade are set forth in Part II of this brief.

Respondent did not notify its licensees of any alternative arrangement until the year 1953. In that year, apparently alarmed about the possibility that it was violating the antitrust laws and misusing its patents, Respondent notified

its existing license-lessees that they could return the leased equipment and convert their agreements into patent licenses. This "offer" was economically ridiculous and was recognized even by licensees to be mere window dressing purporting to legalize the license-leasing program.

From the inception of its program, Respondent has prepared forms of its agreement which it submitted to its prospective licensees. In 1953, it prepared and stocked standard forms of non-equipment licenses for the No. 2 Process. Respondent never entered into this new form of agreement with anyone. This form of agreement, moreover shows clearly the ulterior motive of Respondent to continue the same illegal monopolization that it was enjoying under its form of license-lease agreement. Upon analysis, it is clear that this form offers an alternative just as illegal as the license-lease form, and that any customer would be foolish to take the risk of entering into such an arrangement. The so-called alternative was a sham.

Respondent adopted a policy of only granting licenses which covered a group or package of its patents. In the great majority of its executed agreements, it did not specifically identify the patents being licensed. The language of these agreements, as well as extrinsic circumstances revealed by this record, shows that the patent package being licensed contained inapplicable and unwanted patents. Similarly, in a substantial portion of the handful of agreements in which the patents being licensed *were* specifically listed, clearly inapplicable patents were inserted. In this fashion Respondent overwhelmed the trade with its large array of patents and forced its licensees to recognize the validity of and pay for unnecessary patents.

Respondent was not satisfied with the dominant position it had obtained through its acquisition of patents and the illegal means used to exploit such patents. It felt that

it was necessary to look to the future. This it did through the grant-back provisions of all its No. 2 Process license agreements issued prior to the year 1955, 133 of which are still outstanding. The viciousness of Respondent's grant-back provisions lay in the fact that they were not restricted to mere improvements upon the licensed patents but covered any patentable inventions, regardless of how obtained by the licensee, which might in any manner affect the airless electrostatic spray coating industry. The grant-back provisions are illegal for the additional reason that they further tighten the monopolistic hold which Respondent has long had in that industry. The details concerning the grant-back phase of Respondent's program are covered in Part IV of this brief.

D. Injury to Petitioner.

Respondent's monopolization of the airless electrostatic spray coating market prevented Petitioner from selling equipment therein. Respondent's program of tying in equipment eliminated all of the equipment users as potential purchasers of Petitioner's equipment both for original use and for use as replacement parts. The package licensing and grant-back phases of its program were integral parts of the activities which impinged upon Petitioner to its damage.

Petitioner sells such catalogue items as spray guns and allied equipment for the spray coating field and has developed its SK 661 emitter, a simple electrostatic liquid spraying device. Petitioner was capable and ready to supply equipment for a complete electrostatic spray coating system on order (Pl. Ex. LLLLL, R. I:685-686). It had successfully interested Ford Motor Company as a large prospective customer in purchasing such a system employing its SK 661 emitter, but was unable to consum-

mate the sale because of Respondent's illegally acquired monopolistic position. Respondent threatened Petitioner not to sell its equipment for airless electrostatic spray coating to anyone who was not a licensee of Respondent. Of course, this left no market for Petitioner since all of Respondent's licensees already had leased their equipment from it and had even paid in advance for replacement parts.

When all the above-mentioned aspects of Respondent's history and operations in the electrostatic spray coating field are thus viewed as a whole, it becames evident that Respondent has purposely monopolized and restrained trade in this mark[illegible] Respondent was not privileged to engage in such activities because of its patent holdings. As this Court stated in *Mercoid Corporation* v. *Mid-Continent Investment Co.*, 320 U. S. 661, 666 (1944):

> The fact that the patentee has the power to refuse a license does not enable him to enlarge the monopoly of the patent by the expedient of attaching conditions to its use. * * * *The method by which the monopoly is sought to be extended is immmaterial.* * * * *When the patentee ties something else to his invention, he acts only by virtue of his right as the owner of property to make contracts concerning it and not otherwise. He then is subject to all the limitations upon that right which the general law imposes upon such contracts.* * * * [Emphasis supplied.]

The decision below should be reversed solely on the grounds set forth in this Part I. In the remaining portions of this brief we shall show that certain of Respondent's individual activities in themselves constitute violations of the anti-trust laws and patent misuse: Part II—tie-in; Part III—package licensing; Part IV—grant-back clauses; Part V—patent fraud.

II. RESPONDENT HAS ILLEGALLY TIED EQUIPMENT LEASES TO PATENT LICENSES.

A. Tie-in of Original Equipment.

From the commencement of its marketing of electrostatic spraying in 1944, Respondent has employed a license-leasing system which has remained substantially the same (Int. 170, R. I:74). Under this system Respondent has joined equipment leases with patent licenses. As Respondent's Vice President, Harold Ransburg, testified, the basic method of licensing has not changed since Respondent was organized (R. I:410). Also Mr. Howarth testified that since the filing of this suit in 1956, Respondent has pursued without change the same leasing program that it had before the suit was filed (R. I:610). The patent licensing and equipment leasing program for the No. 1 Process was so completely established by Respondent that the momentum thereof carried over into the licensing and leasing of its No. 2 Process beginning in 1951. Harold Ransburg testified that by that year Respondent was well established in the electrostatic spray coating field and was able to take advantage of the momentum afforded by its establishment in that field (R. I:433).

As a matter of practice Respondent prepares the standard license-lease agreement and submits it to the prospective licensee (R. A. 44, R. I:201). These license-lease forms are not tailored to meet the requirements of any particular customer (R. A. 45, R. I:201). Respondent does not sell any equipment (R. A. 1; R. I:194). It has in every instance coupled equipment leases with its patent licenses for the No. 2 Process. In this connection it specifically admits that:

> in granting its licenses in the airless electrostatic coating field (a) it has not only granted licenses un-

> der its letters patent in suit but has also joined with such licenses leases for equipment furnished by [it] and (b) has at all times maintained title to all equipment it has furnished its licensees under its agreements with them and (c) *in no case prior to the filing of this suit has it ever actually granted a license without the license being accompanied by a lease of equipment* [R. A. 71, R. I:205; emphasis supplied.]

Prior to 1953 Respondent did not offer to its licensees any alternative to the combined patent license and leasing arrangement described above.[3] Respondent on page 7 of its Brief in Opposition to the Petition for Certiorari states that the company's policy to make licenses without leases of equipment available "has been repeatedly expressed to Respondent's personnel in written bulletins from 1947" to the filing of this case. Although an internal policy had been recorded in these bulletins that "if a prospective customer should insist upon furnishing his own specialized equipment * * *" he would be permitted to do so, the same bulletins emphasized the disadvantages to Respondent and the supposed disadvantages to the customer which would attend such an arrangement (Def. Ex. 23, 24, R. III:282-284). Moreover pricing schedules did not envision this possibility (*e. g.*, Pl. Ex. QQ, R. II:756-761). The literature which was disseminated *to the trade* shows that Respondent was not offering its customers any alternative to the combined license-lease arrangement. Sales brochures stated flatly: "Ransburg supplies the complete automatic coating unit

3. As noted before, neither before nor after 1953 has Respondent licensed anyone under the No. 2 Process without conjunctively leasing equipment. Of the handful of customers licensed without leases under the No. 1 Process, one obtained its license through settlement of a patent infringement action brought by Respondent, and the others were already license-lessees of Respondent who were merely permitted to acquire *additional* apparatus from a third party. (Find. 67, R. II:1002-1003; R. I:421-422; Def. Ex. 30, R. III:349; R. III:192).

• • •" or "We supply the necessary specially designed electrostatic unit • • •" (Pl. Ex. IIII, R. II:862; Pl. Ex. EEEE, R. II:854). Respondent's policy of offering only a combined license-lease arrangement did not change after 1953, since no realistic alternative was offered by the attempted purge at that time. See *infra*, pages 36-42.

Respondent dominated the airless electrostatic field from 1951 to the present, as set forth in Part I of this brief at pages 19-21. Whether Respondent's domination resulted from patents or otherwise, the tying of equipment to patent licenses was illegal *per se* here.

> • • • "[T]ying agreements fare harshly under the laws forbidding restraints of trade." *Times-Picayune Publishing Co.* v. *United States*, 345 U. S. 594, 606. They are unreasonable in and of themselves whenever a party has sufficient economic power with respect to the tying product to appreciably restrain free competition in the market for the tied product and a "not insubstantial" amount of interstate commerce is affected. *International Salt Co.* v. *United States*, 332 U. S. 392.

Northern Pacific Railway Company v. *United States*, 356 U. S. 1, 6 (1958); see also *United States* v. *Jerrold Electronics*, 187 F. Supp. 545 (E. D. Pa., 1960), affirmed per curiam, in the Supreme Court of the United States No. 631, decided March 20, 1961, CCH Trade Reg. Rep., current volume, ¶ 69,960.

In cases where patents (or copyrights) are involved, the patent establishes the scope of the relevant market and supplies the requisite of dominance in such market. *Times-Picayune Pub. Co.* v. *United States*, 345 U. S. 594, 611 (1953). As the Sixth Circuit stated in *Oxford Varnish Corporation et al.* v. *Ault & Wiborg Corporation*, 83 F. 2d 764, 766 (1936), in holding that "monopoly of a defined portion of an industry is equally subject to the condemna-

tion of the anti-trust laws as is a monopoly over an entire industry":

> The ratio borne by the defendant's volume of business to the paint and varnish industry is not, we think, the measure by which monopolistic tendency of its contracts is to be determined. * * * The defendant is possessed of patents. Such patents grant it a limited monopoly, limited as to time and as to the articles or processes precisely covered by the claims. Within such limitations its monopoly is exclusive and complete—there is no unoccupied area. It seeks by contract to extend within that restricted field the monopoly of the patent to supplies not covered by patent. The record shows it to have been wholly successful. Competitors may not negotiate with its licensees on an equal trading basis—they are wholly and completely shut out.

In the instant case the license fees which Respondent collected in licensing its No. 2 Process amounted to $2,220,000 in 1956 and $2,640,000 in 1957 (Int. 85, 86, R. I:58). The total fees received by Respondent for its No. 2 Process from 1951 through 1957 amount to $8,865,000. Respondent admits that "the aggregate approximate cost of equipment and replacement parts when shipped was in excess of $2,250,000" and that "on the basis of cost, at least 75% of such equipment was designed for the airless type of electrostatic spray coating" (Int. 71, R. I:55). Moreover, in the year 1957 the total cost of all paint, varnish and lacquer used in the No. 2 Process by Respondent's licensees was $6,693,642 (Find. 83, R. II:1011). Certainly, taking any one of the above sums, it must be concluded that a "not insubstantial amount of interstate commerce is affected" within the meaning of the *International Salt*, *Northern Pacific* and *Jerrold Electronics* cases.

Aside from the question of *per se* illegality under the foregoing cases, however, violation of the Sherman Act

is present here regardless of the substantiality of commerce affected. As this Court pointed out in *Times-Picayune Pub. Co.* v. *United States, supra*, at page 614:

> * * * For purposes of § 1, "[a] restraint may be unreasonable either because a restraint otherwise reasonable is accompanied with a specific intent to accomplish a forbidden restraint or because it falls within the class of restraints that are illegal *per se*." * * * Since the requisite intent is inferred whenever unlawful effects are found, * * * and the rule of *International Salt* is out of the way, *the contracts may yet be banned by § 1 if unreasonable restraint was either their object or effect.* [Emphasis supplied.]

In the present case the record clearly establishes that unreasonable restraint was both the object and effect of Respondent's tie-in program throughout.

In addition to what has been said with respect to the illegality of Respondent's tie-in program under the provisions of the anti-trust laws, it is to be noted that such program constitutes a misuse of patents under the applicable cases. This Court has uniformly condemned all attempts by a patentee to obtain a monopoly over the use of unpatented equipment in connection with equipment covered by one or more of its patents. *Motion Pictures Patents Co.* v. *Universal Film Manufacturing Co.*, 243 U. S. 502 (1917); *Carbice Corporation of America* v. *American Patents Development Corporation*, 283 U. S. 27 (1931); *Leitch Mfg. Co.* v. *Barber Co.*, 302 U. S. 458 (1938); *Morton Salt Co. v. Suppiger*, 314 U. S. 488 (1942); *B. B. Chemical Co.* v. *Ellis*, 314 U. S. 495 (1942); *Mercoid Corporation* v. *Minneapolis-Honeywell Regulator Co.*, 320 U. S. 680 (1944). Of course, as the Court stated in *Mercoid Corporation* v. *Mid-Continent Investment Co.*, 320 U. S. 661, 666 (1944):

> *The method by which the monopoly is sought to be extended is immaterial.* * * * *When the patentee*

ties something else to his invention, he acts only by virtue of his right as the owner of property to make contracts concerning it and not otherwise. He then is subject to all the limitations upon that right which the general law imposes upon such contracts. * * * [Emphasis supplied.]

In view of the fact that the "method by which the monopoly is sought to be extended is immaterial", it is respectfully submitted that the doctrine of misuse of patents as applied by this Court in the tie-in cases is equally applicable to a package-licensing and license-back program such as has been conducted by Respondent. See Points III and IV, *infra*.

B. Tie-in of Replacement Parts and Services.

Respondent here tied in with its patent licenses not only all original equipment leased, but also all of the replacement parts for such equipment and services with respect to this equipment. In the fees charged, the licensees were required to pay Respondent in advance for replacement parts and services.

In its answer to Interrogatory 33 (R. I:50), Respondent submitted Exhibit E (R. I:152-177) showing what type of its 45 forms of agreement, and which type of electrostatic system was involved in each of its 733 licenses. In its answer to Interrogatory 36 (R. I:50), Respondent submitted the attached Exhibit G (R. I:182-183) as showing a typical list of equipment furnished under its license-lease agreements. This list includes many items which are unpatented staple articles or commodities of commerce. Certainly, such conventional items as *switches, alarm bell, cable, wire, transformer oil, tubing, hose fittings, terminal puller, snap ring pliers, tube pullers,* and *spare electrical tubes*, appearing on said list, are all within that cate-

gory. Yet, customers, as part of a package deal, were forced to pay for such parts in order to get the license.

As to this matter of parts, Mr. Wallin of Respondent's licensee Webcor, said (Pl. NNNN, R. I:645-646):

> Q. Have you ever had to acquire any replacement parts?
>
> A. No. All the parts in the equipment are covered by our charge.
>
> Q. Well, I mean, has Ransburg from time to time furnished additional parts?
>
> A. Oh, yes.
>
> Q. You haven't gone out on the outside and bought any parts?
>
> A. No, no.
>
> Q. You considered that was all included in the contract?
>
> A. That's right. *We even get hoses, connecting wires. The lead-in cable will break down, and that is furnished.*
>
> Q. Well, you could buy that on the outside, if you wanted it?
>
> A. We could, but why should we when we are paying for it.
>
> Q. *So to that extent it has cut down the amount of business you have had to transact with outsiders as far as these parts are concerned, is that right? I mean third parties, people besides yourself and Ransburg. You haven't had to go out and buy anything from other people?*
>
> A. For this particular equipment, you mean?
>
> Q. Yes, yes.
>
> A. The No. 2 equipment?
>
> Q. Yes.
>
> A. *No, we don't buy anything for the No. 2 for their part of the equipment.* There are other parts, the paint supply and stuff, which we still buy outside.
>
> Q. But nothing for the equipment that they furnished?
>
> A. No, we don't buy anything. [Emphasis supplied.]

Respondent's fees not only include all replacements, but also technical and engineering services which Respondent stands ready to supply its licensees (Int. 11, R. I:47). There is no other servicing organization or used equipment dealer in the field (R.A. 51-52, R. I:201).[4]

This Court in relying on its decision in the case of *Carbice Corporation* v. *American Patents Development Corp.*, 283 U. S. 27 (1931), said in *Leitch Mfg. Co.* v. *Barber Co.*, 302 U. S. 458, 463 (1938):

> * * * The Court held in the *Carbice* case that the limitation upon the scope or use of the patent which it applied was "inherent in the patent grant." It denied relief * * * on the broad ground that the owner of the patent monopoly, ignoring the limitation "inherent in the patent grant," *sought by its method of doing business to extend the monopoly to unpatented material used in practicing the invention.* By the rule there declared every use of a patent as a means of obtaining a limited monopoly of unpatented material is prohibited. *It applies whether the patent be for a machine, a product, or a process. It applies whatever the nature of the device by which the owner of the patent seeks to effect such unauthorized extension of the monopoly.* [Emphasis supplied.]

In *Stearns* v. *Tinker & Rasor*, 252 F. 2d 589 (1957), a case with a fact situation closely parallel to the case at bar, the Court of Appeals for the Ninth Circuit considered a leasing arrangement under which a patent owner leased some patented equipment together with an unpatented high voltage power supply and other unpatentable parts. In finding this arrangement a violation of Section 3 of the Clayton Act, the court held, at page 603:

> Here the lease requires the taking of both patented

4. See *United States* v. *Jerrold Electronics*, 187 F. Supp. 545 (E. D. Pa., 1960), affirmed per curiam, in the Supreme Court of the United States No. 631, decided March 20, 1961, CCH Trade Reg. Rep., current volume, ¶ 69,960.

and unpatented parts, which of necessity has the actual realistic effect of restricting competition in the unpatented parts.

Here, likewise, Respondent has violated Section 3 of the Clayton Act, as well as Sections 1 and 2 of the Sherman Act, by requiring all of its hundreds of licensees not only to lease original equipment from it but also to pay for replacements thereof as well as services. Respondent necessarily stifled competition as to such equipment, since the fees charged its licensees included the price of replacements and there was, accordingly, no possibility of the licensees acquiring such items elsewhere.

C. Respondent's 1953 Attempted Purge Was a Sham Contrived After It Had Already Dominated the Market With Existing Leases.

Respondent's only answer to the above tie-in argument is that it did not *require* a licensee to take Respondent's equipment as a condition of obtaining a patent license. Its 1953 actions, however, admit that its prior conduct was illegal. These actions did not eliminate the illegality.

Respondent, in 1953, apparently concerned with the anti-trust aspects of this unequivocal tie-in, paid lip service to the anti-trust laws by notifying its existing licensee-lessees that it would be willing to grant a patent license alone for the process, at a slightly reduced monthly fee, if the licensee would return all Respondent's leased equipment to it. There was to be no return to the licensee of the initial fee of thousands of dollars ($5,000 to $40,000: R. A. 38, R. I:200) which the licensee had paid to the Respondent at the time of installation (Pl. Ex. LLLL, R. I:542). Such fee had admittedly fully compensated Respondent for all of its costs on such equipment (Int. 10, R. I:47). Typical form letters offering this proposed modification will be found at R. II:730 and 731.

No licensee ever took advantage of the "offer" (Pl. Ex. LLLL, R. I:538-539; Pl. Ex. NNNN, R. I:574). At least one licensee, Webcor, branded the proposition "ridiculous" (Pl. Ex. LLL-4, R. I:826; R. I:465). Another licensee, Altex Corporation, recognized that this form letter had been adopted as mere window dressing when it wrote Respondent on July 28, 1953, as follows (Pl. Ex. LLLL, R. I:546):

> "The letter *proposes a change of contract no doubt to conform with precedent set up recently in the Patent Courts*, but since the expression in your letter is oversimplified, we would appreciate your sending us a rough draft of the proposal you are making to others." [Emphasis supplied.]

Harold Ransburg's testimony shows that Respondent was concerned because of the "IBM situation" (Pl. Ex. LLLL, R. I:547-548). Speaking of the "offer" contained in the letters, Respondent's own salesman, Pleva, said (Pl. Ex. NNNN, R. I:621-622):

> *That was kind of a sad situation and I couldn't see how anybody would be interested in that.* [Emphasis supplied]

and also stated that he could not give customers "any good answers" for the letters.

With such a reaction by Respondent's own salesmen, one can but conclude that Respondent's alternative offer of a license alone was not only "ridiculous," but, in truth, mere window dressing contrived on advice of counsel (Pl. Ex. LLLL, R. I:542) in an attempt to circumvent the anti-trust laws such as the attempt condemned in *Barber Asphalt Corp.* v. *La Fera Grecco Contracting Co.*, 116 F. 2d 211, 215 (C. A. 3, 1940).

Representatives of Respondent's customers, called as witnesses by Petitioner, testified that in their contacts with

Respondent's representatives, they never were made aware of any arrangement except where equipment was leased by Respondent (Pl. Ex. NNNN, R. I:634, 651). Respondent's Installation Department head, Howarth, stated (Pl. Ex. NNNN, R. I:574):

> Q. I would take it then from your answer that as far as the airless No. 2 system is concerned *you know of no instance where your company granted a license and the licensee was permitted to use its own or someone else's airless electrostatic equipment.*
>
> A. That is right. [Emphasis supplied.]

The conclusion is inescapable that Respondent had no intention, either before or after 1953, of granting any such licenses without equipment leases.

D. Respondent's Alternative Form of Patent License Without Lease, First Devised in 1953, Was Also a Sham.

The alternative form of license without lease which Respondent prepared and stocked in 1953 likewise shows, through its express provisions, that Respondent did not intend to offer a real choice to the trade. This form was drafted so as to give every assurance that Respondent would retain its stranglehold upon the market.

A typical example of such form of agreement for the No. 2 Process is Respondent's Exhibit D-30 adopted in April of 1954 (R. III:18-23). The recital therein is the same as that used in the license-lease form. It states that:

> Ransburg is the owner of, or otherwise has the right to grant licenses under, certain inventions, United States letters patent, or patent applications pertaining to and *covering methods and apparatus* used in electrostatically depositing liquid spray particles formed by airless atomization (without the use of compressed air), the process so used being hereinafter referred to as "said Process," • • •. [Emphasis supplied.]

Section 1 of the alternate agreement form similarly contains the same granting provision as the license-lease form. Ransburg therein

> grants to User, subject to and in accordance with all of the terms and conditions of this agreement and while the same is in effect, a nonexclusive, nonassignable *license to use said Process * * * with one unit as shown in Ransburg's Drawing No. , subject to such changes therein and such further specifications as Ransburg may prescribe*, * * *. [Emphasis supplied.]

Despite the fact that none of Respondent's equipment would be leased under the alternate form, the license is still restricted to the use of "said Process", *i.e.*, the use of the inventions covered by the patents being licensed, "*with one unit as shown in Ransburg's Drawing No. * * *.*" The drawing referred to is the drawing prepared by Respondent's engineers, which is always prepared ~~before a license is granted~~ (Find. 61, R. II:999), which is attached to and made a part of the agreement (Find. 62, R. II:999; R, III:178), and which embodies equipment of Respondent's own design and of the kind it alone has heretofore manufactured (*e. g.*, Pl. Ex. PPP-3, R. II:835).

Thus, a prospective licensee desiring, for example, a license under the Starkey method patent, without a lease, would be restricted to the use of the patented method with the equipment shown in Respondent's drawing. This equipment would be covered by the Starkey combination apparatus patent.[5] The District Court below recognized that these patents were independent of each other when it found (Find. 45, R. II:991):

5. See the Ransburg drawing for Chicago Rawhide Mfg. Co., Pl. Ex. PPP-3, R. II:835, and compare it with Def. Ex. 17-C, R. II:961, which is a diagram of apparatus covered by the Starkey apparatus patent.

> The two patents in suit are for inventions different from each other. While the contemplated operation of apparatus patent 2,794,417 inherently involves the method claimed in patent 2,685,536, that method can be practiced by forms of apparatus outside the scope of claim 4 of patent 2,794,417.

Respondent through its form of license without lease has thus made certain that no one who might take a license of the Starkey method patent could practice the patented method except by employing the apparatus patent. As is emphasized by the District Court's finding of fact noted above, it is not the statutory monopoly of the method patent which would compel the use of equipment covered by the apparatus patent, but the contractual provision devised by Respondent.

In its alternate form Respondent not only restricts the use of the method patent to a "unit as shown in Ransburg's Drawing No. ." It also restricts the use "to such changes * * * and such further specifications" in such unit "as Ransburg may prescribe." Thus, Respondent not only enables itself to compel the use of its apparatus covered by its existing patents, but also of such apparatus or improvements as it might in the future obtain patents upon.

Had any of these alternate forms been actually used, Respondent would still have been guilty of attempting to extend the limited monopolies of its individual patents beyond their statutory scope, even as it has been in the case of its license-leases. The evils inherent in the proffered license without lease arrangement may be readily enumerated:

1. If the licensee or its supplier (*i. e.*, Petitioner) could design around the apparatus patent and produce equipment for practicing the Starkey method, the licensee would

nevertheless be precluded, by its agreement with Resepondent, from using such equipment.

2. Respondent's Starkey method patent was issued on August 3, 1954, and, therefore, expires in 1971. On the other hand, the Starkey apparatus patent was issued on June 4, 1957 and therefore does not expire until 1974 (R. II:1025, 1033). Consequently, a prospect who desired to avail itself of the use solely of Respondent's Starkey method patent would find itself, of necessity, required to pay royalties for a period of almost three years following the expiration of that patent (or else to discontinue the use of its own equipment for that period.)

3. Respondent's potential competitors, including Petitioner, would have no incentive to invent apparatus for the use of the Starkey method that would not infringe the Starkey apparatus patent, for they would be deprived of a market for the sale of such apparatus.

Thus, it will be noted that, even if Respondent's prospective licensees have been offered a choice between two forms of license agreements, both are illegal. One, the license-lease, is illegal because it unlawfully ties in equipment. The other, license without lease, is illegal because it would unlawfully require the licensee to use apparatus which it might prefer not to use and which would be covered by a patent or patents unwanted by the licensee. Each arrangement serves illegally to extend the limited monopoly conferred by Respondent's patents and each stands equally condemned under the antitrust laws. Moreover, it is easily understandable why no one ever took the license without lease for the No. 2 Process. As shown above, the provisions of the alternate form were so drafted as to make certain that no customer would enter into such an onerous agreement had it ever been actually offered.

In view of the foregoing we submit that Respondent's

attempt to distinguish *International Salt Co. v. United States*, 332 U. S. 392 (1947) and *Northern Pacific Railway Company* v. *United States*, 356 U. S. 1 (1958) on the ground that in "each of those cases the arrangement was condemned because the licensee or lessee was denied any choice except to agree to the tied combination, unlike the instant case" (Brief in Opposition to the Petition for Certiorari, page 18) should fall upon deaf ears. If those cases are inapplicable where a choice exists, the choice must be a real one; not a mere choice between two equally illegal arrangements. Certainly this Court's footnote 4 on p. 6 of its opinion in *Northern Pacific Railway Company* v. *United States*, set forth on page 18 of Respondent's Brief in Opposition to the Petition for Certiorari, does not provide any support for Respondent's position.

A further evil inherent in the alternate form is the fact that any licensee desiring a license only under a method patent or patents would be *required* to take in conjunction therewith a license under an unwanted apparatus patent or patents. This compulsory package licensing clearly contravenes the anti-trust laws as demonstrated in Part III, to which we now turn.

III. RESPONDENT'S PACKAGE LICENSING OF ITS PATENTS FORCED ITS LESSEES TO TAKE LICENSES UNDER UNWANTED PATENTS.

Respondent owned 103 United States patents and had rights to sub-license under some 40 additional patents (R. I:243-246). It *never* licensed or offered to license under a single patent alone (R. I:482). Most of Respondent's licensing agreements do not specifically identify the applicable patents, inventions and pending patent applications under which it is licensing. In its agreements Respondent represents that it is the owner of or otherwise has the right to grant licenses under patents, inventions and ap-

plications "pertaining to and covering methods and apparatus used in electrostatically depositing liquid spray particles formed by airless atomization," and vaguely refers to "the process so used" as "said Process" (R. I:114, 122, 129, 137, 145; R. III:18). In the granting clause Respondent simply grants "the right to use said Process," thereby granting a license under *all* of said patents and inventions. Hence, Respondent in its licensing program contrived not to identify any of the patents being licensed or even those which it considers applicable to the leased equipment.

In addition to the language of Respondent's licenses the words and conduct of the contracting parties determine what patents were intended to be included in Respondent's blanket patent license agreements. Respondent admitted that it and its personnel not only did not know what patents in its large portfolio of patents were applicable to its leased equipment, but, further, kept no records thereof (R. I:471, 481-483). Harold Ransburg also wrote one licensee, Westinghouse, that: "*It is our policy not to agree that a licensee can contest the validity of our patents*" (R. I:472; emphasis supplied).

Respondent's position is that it merely licenses its leased equipment under "applicable patents," and that this is not objectionable as a package-license or block-booking of patents because no unwanted or inapplicable patents are included. If Respondent's position is well founded, all that an owner of a large group of patents would have to do in order to license them only as a package would be not to list by numbers or spell out the patents licensed but to specify merely that the license is under all patents which the licensor owns. Such a plan would force the licensee to recognize the validity of and pay for any and all patents of a large group which the licensor might at any time own.

Moreover, Respondent's claim that its agreements only

encompass "applicable" patents is refuted when reference is made to the handful of agreements under which it has specifically listed the patents being licensed. According to Exhibit F (R. I:178-181), prepared by Respondent in response to Interrogatory 34 (R. I:50), Respondent entered into license-lease agreements in which it listed a large number of patents with seven of its licensees, namely, Avco-Crosley, E. I. du Pont de Nemours & Co., Durham Mfg. Corp., Gibson Refrigerator Co., Huffman Mfg. Co., Scott Paper Co., and Stant Mfg. Co.

In one of these instances where a licensee, Avco Manufacturing Corp., was able to get Respondent to list its patents in the agreement itself (Pl. Ex. XXXX, R. II:886-891), Respondent admitted that none of the 36 patents listed "covered the No. 2 system leased and licensed to Avco Manufacturing Corp." (R.A. 90(b), R. I:211). This Avco-Crosley license-lease agreement was still in force and effect at the time the suit was commenced as shown by Exhibit E (R. I:154) submitted by Respondent in its answer to Interrogatory 33 (R. I:50).

Reference to this Exhibit E (R. I:154) showing the forms of licenses granted by Respondent to its respective licensees reveals that the Avco airless No. 2 system agreement was form of agreement D-29 (R. I:137). The first "Whereas" clause of this agreement was deliberately amended by letter of agreement dated January 18, 1954 to include the 36 patents listed in Exhibit B (Pl. Ex. XXXX, R. II:886, 891) as covering the licensed "Process" even though as now admitted by Respondent *it knew none was applicable or covered the licensed process* (R.A. 90(b), R. I:211).

The fact that this was done deliberately is evident from the following testimony of Harold Ransburg, Vice President in charge of sales (R. I:475-476):

Q. (Interposing.) *Were you aware of the fact*

at that time you did not have a single patent on airless atomization that was applicable to the installation that was involved in this agreement of Plaintiff's Exhibit XXXX? Were you aware of that fact?

A. What is the date of that letter?

Q. January 18, 1954.

A. *Yes, I am aware of that.* [Emphasis supplied.]

Just two months before the trial below Respondent attempted unsuccessfully by correspondence in October, 1958 to purge itself of its wrong-doing in its aforesaid agreement with Avco (Def. Ex. 41, R. II:965-967). In its reply of October 7, 1958 Avco's counsel Redfield said (R. II:966):

> Your letter of October 1 puzzles me. I have a note in my file indicating that I had insisted, probably at our conference on January 6, 1954, that the first "Whereas" clause specify the patents and applications covering the No. 2 process so as to tie down the term "said process" as used in the agreement to what is described and claimed in the patents. *Apparently what was done was to include a general list of all patents you owned in Exhibit A, which was not responsive to my request.* [Emphasis supplied.]

The agreement with Avco was by no means the only one where Respondent included clearly inapplicable patents. For example, in the agreements with du Pont relating solely to the air-type No. 1 Process, dated January 18, 1949 and November 4, 1949 (R. I:158) Respondent listed the Gravely *detearing* patent No. 2,359,47[illegible] (R. I:179). In the agreement with Durham Mfg. Corp. relating to the airless No. 2 Process (R. I:159) it listed Patent No. 2,247,963 (R. II:1095) which, as the District Court found, was Respondent's patent on the air-type No. 1 Process (R. II:968). Respondent also listed in the license to Huffman Mfg. Co.—which dealt strictly with the air-type process (R. I:163)—the Starkey method patent No. 2,685,536 which was directed to methods of electrost[illegible]ically spray painting without the use of air (Find. 22; R. II:984; R. I:180).

From the foregoing it is clear that Respondent meant to, and did, include in its licenses a large package of patents whether or not they were "applicable". The effect of this was to force the licensee to recognize the validity of and to pay for any patents of a large group that Respondent might at any time own, including unwanted patents.

The illegality and the evil of package licensing are well stated in *American Securit Co.* v. *Shatterproof Glass Corp.*, 268 F. 2d 769 (C.A. 3, 1959), certiorari denied, 361 U. S. 902 (1959), where the court said at page 777:

> * * * Mandatory package licensing is no more than the exercise of the power created by a particular patent monopoly to condition the licensing of that patent upon the acceptance of another patent but that is too much. The protection, or monopoly, which is given to the first patent stops where the monopoly of the second begins.
>
> Whatever may be the asserted reason or justification of the patent owner, if he compels a licensee to accept a package of patents or none at all, *he employs one patent as a lever to compel the acceptance of a license under another. Equity will not countenance such a result.* We conclude that the court below committed no error in finding that the defense of misuse asserted by Shatterproof is a valid one.
>
> * * * * *
>
> We conclude also, and quite apart from all of the foregoing, that Paragraph 8(a) of Securit's Standard Licensing Agreement which provides that that agreement shall continue "in full force and effect to the expiration of the last to expire of any" of Securit's patents set out in "Schedule A" *constitutes a patent misuse for it extends the payment of royalties of patents under patents which may expire to the expiration date of that patent most recently granted to Securit.* Indeed the expiration clause of the contract works an "aggravating hardship" on the licensee as Judge Leahy stated, in that it demands the renunciation of all patents, whether wanted or unwanted under the license. [Emphasis supplied.]

Apropos of the foregoing discussion in the *Securit* case, no license-lease of Respondent was restricted to the duration of *any* patent (Int. 81, R. I:57), and actually its agreements went on indefinitely (Pl. Ex. XXXX, R. I:625). Even when all of Respondent's patents expire, its licensees will still be obligated to pay full fees to keep and use the leased equipment.

The Court of Appeals below gave weight to the fact that Respondent's licenses are terminable by the customer on thirty days' notice. It ignored completely the point made in *Securit* that such an expiration clause works an "aggravating hardship" on the licensees since it demands the renunciation of the patent or patents which the licensee wanted or was willing to pay for in order to relieve himself of the obligation of recognizing the validity of and continuing monthly payments for those he did not want and was unwilling to pay for. Further, in the instant case since each licensee of Respondent was required to pay a substantial initial fee, in exercising the termination clause it would lose all of this initial investment in addition to losing the rights under the wanted patents.

The Court of Appeals below relied upon *Automatic Radio* v. *Hazeltine*, 339 U. S. 827 (1950). This is not an authority for the proposition that block booking or package licensing of patents is legal. There this Court at 831, noting with approval *United States* v. *Paramount Pictures*, 334 U. S. 131 (1948), stated that *it was not considering the matter of package patent licensing because the point had not been pressed below, nor was there any evidence before the Court.* The rule of law in the *Securit* case declaring package licensing illegal was not previously passed upon in the *Hazeltine* case.

This Court's opinion and the reasoning in support thereof in the case of *United States* v. *Paramount Pictures Inc.*,

334 U. S. 131 (1948) is controlling here on this issue. In that case this Court specifically approved the trial court's injunction prohibiting the defendants from performing or entering into any license in which the right to exhibit one feature film was conditioned upon the licensee's taking one or more other features. Both this Court and the trial court found that such practice constituted an unlawful expansion of the limited monopoly conferred by the copyright laws and predicated their opinion upon the reasoning set forth in the tying cases. The application of that principle to the package licensing program of Respondent in this case calls for a condemnation of its patent licensing program under the antitrust laws.

IV. RESPONDENT'S REQUIREMENT THAT LESSEES GRANT BACK FUTURE PATENT RIGHTS IS ILLEGAL.

Beginning in 1951, and for over 3½ years before the allegedly basic Starkey method patent in suit was issued on August 3, 1954, Respondent included in its license-leases extremely broad grant-back clauses.

Respondent, in its Brief in Opposition to the Petition for Certiorari (page 26), asserts that in January of 1955 the license-back clause was eliminated, and "was not used thereafter." This ignores the fact that, according to Exhibit E (R. I:152-177), 133 executed agreements with such clauses were outstanding on October 11, 1956 when this suit was commenced (R. I:152-177). Hence, such clause is still being used by the dominant concern in the industry to stifle improvements by these licensees who are parties to such agreements.

As to the agreements containing license-back provisions, Respondent in its answer to Interrogatory 61 (R. I:53) listed its forms D-23 through D-29 and D-31. License back provisions, in paragraph 11, entitled "Future

Inventions," are found in all representative license forms D-23, D-25, D-26 and D-29 of Respondent reproduced in R. I:114-144.

A typical license back "Future Inventions" clause, with right to sub-license, is quoted in the Request for Admission 19 (R. I:196-197) and reads:

> User agrees that in the event User *acquires from any source, any inventions, improvements, or letters patent, domestic or foreign, comprehending subject matter usable in any way in connection with methods or apparatus for the electrostatic atomization of liquids or for coating with electrostatically atomized liquids*, Ransburg shall have with respect to coating methods and apparatus employing said inventions, improvements, and the subject matter of said letters patent, a royalty-free non-exclusive, assignable license, with right to sub-license, such license to be irrevocable except upon voluntary surrender by Ransburg. Patents subject to Ransburg's rights under this paragraph shall include only patents acquired by User during the term of this agreement, patents acquired by User *within two years following termination of this agreement*, and patents whenever acquired by User which cover inventions and improvements made within the term of this agreement or *within two years following its termination*. [Emphasis supplied.]

Now because Respondent in the middle of 1955 adopted a printed form which did not use the "Future Inventions" clause, the courts below gave no weight to the fact that it had not discontinued its license-back provisions in any of its numerous outstanding agreements. These include agreements with such large concerns as E. I. du Pont de Nemours (R. I:158); General Electric Co. (R. I:161); Hotpoint, Inc. (R. I:163); Webcor, Inc. (R. I:175); and Whirlpool-Seegar Corporation (R. I:176). Also see R.A. 48 (R. I:201).

Respondent, beginning in 1951 with its form D-23 (R. 1:114) had for a period of over eight years, forced a major part of the airless electrostatic spray coating industry, dominated by Respondent, to agree to license back to it, all inventions and improvements relating in any way to electrostatic atomization of liquids. As a consequence, all such improvements and inventions were completely stifled. As to this matter, Harold Ransburg testified (R. 1:487):

> Q. As a matter of fact in all of these hundreds of licenses that you granted under the No. 2 system, has a single licensee actually ever made any improvement that they turned over to you?
>
> A. As a matter of fact, a normal licensee has never to my knowledge.
>
> Q. There was not any incentive for them to do it, was there?
>
> A. Only to improve their own operation.
>
> Q. *But they would have to give you free rights so you could license their competition, wouldn't they?*
>
> A. *That is correct.* [Emphasis supplied.]

Respondent employed the "Future Inventions" clauses not to pass along the benefits of any inventions made by others, but to further its monopolization of the industry. It forced the acceptance of such "Future Inventions" clauses upon the trade. As testified to by Mr. Hubbard, attorney for Hotpoint, Respondent would not grant a license without having some grant-back provision in it.

Mr. Hubbard testified (Pl. Ex. NNNN, R. 1:649-650):

> Q. Did you endeavor to obtain an agreement without any such provision as to future inventions?
>
> A. Yes, we did.
>
> Q. With what results?
>
> A. Negative results. Now, I might say that such negotiation was carried on orally at this meeting in Indianapolis that I spoke of.
>
> * * * * * *
>
> Q. Well, can you tell us what transpired in that

discussion—that is, what you said and what Mr. Ransburg said? That is, as you recall it?

A. I suspect I tried to preach to them a little bit about what I considered a rather killing-the-goose-that-laid-the-golden-egg kind of a provision.

Generally speaking, the General Electric Company has a rather liberal licensing policy. We do not require and, as a matter of fact we steer away from, the so-called grant back provisions and I have probably been indoctrinated in that philosophy. So our discussion was a very friendly one and a rather long one.

Mr. Downer, as I recall, *talked about the Trans-Wrap situation as being one which justified their position* and we had considerable argument about that. The net result was, however, that *I did not persuade them to eliminate this patent provision* and we did negotiate that one which I thought was a satisfactory substitute for theirs. [Emphasis supplied.]

In another instance, the General Electric Company had objected to the inclusion of such a "Future Inventions" clause. In order to modify this clause, Respondent insisted upon increasing the initial fee from $5300 to $9300 (Pl. Ex. KKK, R. II:819).

The attitude of the trade with regard to improvements is clearly reflected in dealings with the General Electric Company. In a letter dated December 16, 1953, a representative of Respondent wrote to Mr. Harold Ransburg (Pl. Ex. II-4, R. II:743), because a representative of General Electric had expressed a need for some sort of triggering system on the individual bells of the triple head unit commercialized by the Respondent. In that letter Respondent's representative said: "*He realized that the means of marketing which we had was detrimental to getting any further work done on the equipment* * * *" (emphasis supplied).

The courts have long recognized that grant-back provisions may involve anti-trust violations. In *Transparent-*

Wrap Machine Corp. v. *Stokes & Smith Co.*, 329 U. S. 637, 646-647 (1947), this Court in this regard said:

> As patents are added to patents a whole industry may be regimented. The owner of a basic patent might thus perpetuate his control over an industry long after the basic patent expired. Competitors might be eliminated and an industrial monopoly perfected and maintained. Through the use of patent pools or multiple licensing agreements the fruits of invention of an entire industry might be systematically funneled into the hands of the original patentee.

In a case subsequent to the *Transparent-Wrap* case, *United States* v. *General Electric Co.*, 80 F. Supp. 989, 1006 (S. D. N. Y., 1948), the court found *that against the background of market domination, the transfer of future patent rights as a condition for receiving a license was per se a violation of the anti-trust laws.* The court said:

> The employment of basic patents, or patents which may be basic, to compel the transfer of future patent rights, is condemned per se, when practiced on a scale such as is found in this suit.

Whether the license-back provision is exclusive or non-exclusive should not be determinative of its legality. A non-exclusive grant-back provision for future inventions in a market dominated by the licensor was held to be an anti-trust violation in *United States* v. *General Electric Co.*, 82 F. Supp. 753, 816 (D. N. J., 1949); it should so be held here.

Respondent relied upon this Court's decision in *Transparent-Wrap Machine Corp.* v. *Stokes & Smith Co.*, 329 U. S. 637, 648 (1947), that "the inclusion in the license of the condition requiring the licensee to assign improvement patents is not *per se* illegal and unenforceable." However, in that case there was no showing of dominance or monopo-

lization of the market or restraint of trade, as are here involved. Moreover, the Court there said, at pages 647-648:

> Congress, however, has made no specific prohibition against conditioning a patent license on the assignment by the licensee of improvement patents. But that does not mean that the practice we have here has immunity under the anti-trust laws. Indeed, the recent case of *Hartford Empire Co. v. United States*, 323 U. S. 386, 324 U. S. 570, dramatically illustrates how the use of a condition or covenant in a patent license that the licensee will assign improvement patents may give rise to violations of the anti-trust laws.

The *Transparent-Wrap* decision affords no justification for the decision below with respect to the grant-back provisions of the patent licenses for the following reasons:

1. In *Transparent-Wrap* the grant-back was limited to improvement patents, namely those where "the Licensee shall discover or invent an improvement which is applicable to the Trans-Wrap Packaging Machine." In the instant case the grant-back is considerably broader as set forth above. It requires the granting back of inventions and patents, domestic or foreign, from any source, comprehending subject matter usable in any way with airless electrostatic spray coating. This requirement extends for two years beyond the termination of the agreement.

2. In *Transparent-Wrap* this Court was considering the effect of one grant-back provision between only the licensor and licensee there involved. Here there are more than 130 of these broad grant-back provisions in existence.

3. In *Transparent-Wrap* the licensor was not considered by this Court to have had any market dominance over and above that legally bestowed upon it by the patent grant, whereas in the instant case Respondent's market dominance, as shown in all of the foregoing parts of this brief, is not so limited.

The license-back provisions of its airless system agreements, still in force and effect, were and are still a very important part of Respondent's control of the industry, and as such are clear violations of the anti-trust laws under the authority of *Hartford Empire Co.* v. *United States*, 323 U. S. 386, 324 U. S. 570 (1945).

V. RESPONDENT FRAUDULENTLY PROCURED THE STARKEY PATENTS.

When Respondent commenced marketing its No. 2 Process in 1951 it had no patent protection upon its airless system. To remedy this situation and to further its monopolization of the electrostatic spray coating field, Respondent contrived the wrongful procurement of the Starkey patents. Respondent procured the issuance of these patents by false representations in affidavits filed in the Patent Office to the effect that it had *actually commercialized* the stationary type systems of the then pending parent method patent application (R. IV:637-643). The issue here raised is based on documented evidence as to which there is no dispute, such as Respondent's answers to Interrogatories and Requests for Admissions (R. I:46-218) and patent file history admissions (R. IV:634-648).[6]

Patents procured by fraud are unenforceable. *Precision Co.* v. *Automotive Co.*, 324 U. S. 806, 819 (1945).

The two Starkey patents, 2,685,536 (R. II:1021) and 2,794,417 (R. II:1029), are based on the same *parent application filed September 29, 1944*, from which method patent 2,685,536 issued on August 3, 1954 and apparatus patent 2,794,417 (arbitrarily divided out by Respondent without any Patent Office divisional reqirement) was issued on

6. Respondent's physical exhibits comprising voluminous file histories of the two Starkey patents in suit are on file in this Court as Def. Exs. 5A, 5B and 6, excerpts from which were printed in R. IV.

June 4, 1957 (R.A. 25, 26, 28, 29, 31-33, R. I:198-9; R.A. 64, R. I:203; R.A. 79, R. I:206; Int. 93, 124, R. I:59, 63). Both patents have identical drawings and substantially identical specifications.

During the prosecution of the Starkey application, the applicants after final rejection by the Examiner and on appeal to the Patent Office Board of Appeals repeatedly urged that their invention resided in using a single field as the "sole agent" for effecting atomization (Def. Ex. 5A, R. IV:635-636):

> The heart of applicants' invention lies in the concept of employing a single electrostatic field which acts as the sole agent to atomize paint, disperse the particles formed by atomization, and deposit those particles on the work [Emphasis in original].

Respondent's expert, Miller, testified that what he and Starkey considered to be new was "The concept of using electrostatic forces *alone* to atomize, disperse, and deposit the materials" (R. I:563), and, as will be later developed, the use of the field *alone* and as the sole medium for effecting atomization and coating was in fact the heart of what Starkey invented.

The fact that Respondent knew it had never commercialized any of the structures illustrated in the Starkey patents cannot be in dispute, in view of Respondent's unequivocal admissions herein (R.A. 2, 30, 37, R. I:194, 199, 200; Int. 149, R. I:70). Also, Harold Ransburg testified that an applicator of the type described in the patents presented a "very difficult cleaning problem", and was never commercialized (R. I:432).

For some eight years after the application was filed, only one narrow claim had been indicated as being allowable by the Patent Office. It was then that the Respondent submitted an affidavit in the name of Gilbert Isgrigg attempting to show certain commercial advantages for the

subject matter of the application. The affidavit alleged that Mr. Isgrigg's employer, Hamilton Manufacturing Corporation of Columbus, Indiana, had previously employed the old air-type Ransburg No. 1 Process and that on or about November, 1952 the No. 1 equipment was replaced by new equipment from Respondent (R. IV:637). The affidavit's description of the new apparatus was very vague and did not describe the specific character of the atomizing head being used ("* * * the work is conveyed past and in spaced relation to a number of atomizers maintained at an electrical potential of about 70,000 volts * * *", R. IV:638).

Also, in this respect, the Howarth affidavit filed March 20, 1953 identified licensed structures of the No. 2 Process as being a commercial success of the Starkey invention (R. IV:640). In the Patent Office appeal brief filed May 25, 1953, it was represented as follows (R. IV:643):

> The affidavit of Donald C. Howarth testifies to the wide acceptance and commercial success of applicants' invention on industrial production lines. At the date of the affidavit, *78 licensees* including such companies as. General Electric, Dupont, and Studebaker, had paid substantial initial sums and were making continuing monthly payments for the right to use 101 production units *embodying the invention* [Emphasis supplied].

Now, the fact of the matter was, as Respondent well knew at the time of its representations to the Patent Office, that the installation at the Hamilton Company Plant (Pl. Ex. UUUU, R. II:878) was a No. 2 Process (R. I:426) and that all of its No. 2 Process installations use a *rotating head or centrifugal atomizing head*, as distinguished from the Starkey patent stationary head system wherein the electrostatic field alone does all the atomizing (Def. Ex. 17-A, 17-B, 17-C, R. II:959-961).

Further, it was admitted during trial that if the rota-

tion of the centrifugal head or applicator (which rotated at about 900 R. P. M.) used in the No. 2 Process was arrested, *the electrostatic field alone would not effect coating* or painting as the paint would then drip on the floor (R. I:270-271, 350).

Following the foregoing false showing by Respondent, through affidavits, the Patent Office Board of Appeals after repeated rejections and appeals, finally allowed the method claims in the application. In so doing that Board said (Def. Ex. 5B, R. IV:644):

> *We have examined these affidavits with care and we find that they establish beyond question that the spray painting process to which the claims are directed has achieved commercial success* [Emphasis supplied].

Hence, it was the showing of commercial success which was an essential factor causing the first Starkey patent to issue. The commercial success, however, had been with Respondent's No. 2 Process which contained additional essential features not in the disclosures of the Starkey patent.

After Respondent was successful in fully overcoming the resistance of the Patent Office, it was not satisfied with one patent, but without any divisional requirement by the Patent Office (R.A. 25, 26, 28, R. I:198), it arbitrarily divided out in 1954 the apparatus claims so as to prolong its patent monopoly with a second patent, *i. e.*, 2,794,417, based on the same false representations made to the Patent Office.

Respondent ultimately procured by its false representation two patents, both of which went beyond the scope of the Starkey invention on which they were supposed to have issued. Claim 2 of the Starkey method patent 2,685,536, chosen as representative of the concept embraced by this patent, calls for a single method step, namely, "*the step of maintaining between the head and the article an electro-*

static field which electrostatically effects said atomization, dispersion and deposition" (R. II: 1027; emphasis supplied). This basic concept is common to and depended on in all of the Starkey method claims to impart patentable novelty to them. None of the claims calls for the field alone to effect atomization. Claim 4 of the Starkey apparatus patent 2,794,417 (R. II:1034), the only portion of that patent here in suit, is likewise directed to this same single concept, but defines it in terms of the spacing of the points of atomization, which is also referred to in Starkey method patent claim 1 (R. II:1026-1027). Thus, Respondent procured two broad patents on the use of an electrostatic field, not limited to the field alone, for spray coating liquid. Moreover, of course, neither patent contains any reference to the use of centrifugal force as a contributing agent in effecting atomization.

In view of the foregoing, the courts below erred since patent monopolies, to be enforceable, must "spring from backgrounds free from fraud or other inequitable conduct." *Precision Co.* v. *Automotive Co.*, 324 U. S. 806, 816 (1945). Also see *Keystone Driller Co.* v. *General Excavator Co.*, 290 U. S. 240 (1933), *Hazel Atlas Glass Co.* v. *Hartford-Empire Co.*, 322 U. S. 238, 250 (1944).

CONCLUSION.

The judgment below in favor of Respondent on its counterclaims should be reversed, and judgment should be entered allowing the cross-counterclaim of the Petitioner, and the cause should be remanded to the District Court with instructions as follows:

1. To dismiss Respondent's counterclaims for want of equity;

2. To enjoin Respondent from enforcing its patents and patent rights which relate to electrostatic spray coating;

3. To enjoin Respondent from enforcing or carrying out its existing license-lease agreements and from entering into any further agreements involving its patents in the electrostatic spray coating field until it dissipates fully the effects of its illegal domination;

4. To declare Respondent's Starkey patents in suit invalid;

5. To determine the amount of damages incurred by Petitioner and the amount of costs and expenses including reasonable attorneys' fees to be allowed on its cross-counterclaim; and

6. To enter judgment in favor of Petitioner for treble the amount of damages to be determined, together with all costs and expenses including reasonable attorneys' fees.

Respectfully submitted,

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APPENDIX.

Section 1 of the Sherman Anti-Trust Act, 26 Stat. 209 (15 U. S. C. 1), provides in pertinent part as follows:

> Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is hereby declared to be illegal. * * *

Section 2 of the Sherman Anti-Trust Act, 26 Stat. 209, as amended by the Act of July 7, 1955, 69 Stat. 282 (15 U. S. C. 2), provides as follows:

> Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty of a misdemeanor, and, on conviction thereof, shall be punished by fine not exceeding fifty thousand dollars, or by imprisonment not exceeding one year, or by both said punishments, in the discretion of the court.

Section 3 of the Act of October 15, 1914 (commonly known as the Clayton Act), 38 Stat. 731 (15 U. S. C. 14), provides as follows:

> That it shall be unlawful for any person engaged in commerce, in the course of such commerce, to lease or make a sale or contract for sale of goods, wares, merchandise, machinery, supplies or other commodities, whether patented or unpatented, for use, consumption, or resale within the United States or any Territory thereof or the District of Columbia or any insular possession or other place under the jurisdiction of the United States, or fix a price charged therefor, or discount from, or rebate upon, such price, on the condition, agreement or understanding that the

lessee or purchaser thereof shall not use or deal in the goods, wares, merchandise, machinery, supplies or other commodities of a competitor or competitors of the lessor or seller, where the effect of such lease, sale, or contract for sale or such condition, agreement or understanding may be to substantially lessen competition or tend to create a monopoly in any line of commerce.

Section 4 of the Clayton Act, 38 Stat. 731 (15 U. S. C. 15), provides as follows:

> That any person who shall be injured in his business or property by reason of anything forbidden in the antitrust laws may sue therefor in any district court of the United States in the district in which the defendant resides or is found or has an agent, without respect to the amount in controversy, and shall recover threefold the damages by him sustained, and the cost of suit, including a reasonable attorney's fee.

Section 16 of the Clayton Act, 38 Stat. 737 (15 U. S. C. 26), provides in pertinent part as follows:

> That any person, firm, corporation, or association shall be entitled to sue for and have injunctive relief, in any court of the United States having jurisdiction over the parties, against threatened loss or damage by a violation of the antitrust laws, including sections two, three, seven, and eight of this Act, when and under the same conditions and principles as injunctive relief against threatened conduct that will cause loss or damage is granted by courts of equity, under the rules governing such proceedings, and upon the execution of proper bond against damages for an injunction improvidently granted and a showing that the danger of irreparable loss or damage is immediate, a preliminary injunction may issue . . .

28 U. S. C. 1254 provides in pertinent part as follows:

> Cases in the courts of appeals may be reviewed by the Supreme Court by the following methods:

(1) By writ of certiorari granted upon the petition of any party to any civil or criminal case, before or after rendition of judgment or decree * * *.

28 U. S. C. 1338 provides as follows:

(a) The district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents, copyrights and trademarks. Such jurisdiction shall be exclusive of the courts of the states in patent and copyright cases.

(b) The district courts shall have original jurisdiction of any civil action asserting a claim of unfair competition when joined with a substantial and related claim under the copyright, patent or trade-mark laws.